

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 23 <sup>rd</sup> November 2022
<b>Report Subject</b>	Investment and Funding Update
<b>Report Author</b>	Deputy Head, Clwyd Pension Fund

### EXECUTIVE SUMMARY

An investment and funding update is on each quarterly Committee agenda. There are separate agenda items on asset pooling in Wales, investment performance and the funding and flight path risk management framework.

This update includes matters that are mainly for noting. However it also includes the Fund's proposed response to Department of Levelling Up, Housing and Communities (DLUHC's) "Governance and reporting of climate change risks" consultation for approval.

The matters for noting include:

- Additional Voluntary Contributions Review (AVC) (1.03)
- Progress with the items on the Business Plan 2022/23
- Wales Pensions Partnership (WPP) voting and engagement
- Risk register - there have been a two changes to the risk register this quarter.
- Delegated responsibilities – this details the delegated responsibilities which have been completed by officers since the last Committee meeting.

### RECOMMENDATIONS

1	That the Committee consider and note the update, and provide any comments.
2	That the Committee approve the "Governance and reporting of climate change risks" draft consultation response.

## REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p><b>Business Plan Update</b></p> <p>Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plans for 2022/23. Key tasks are currently on target and key points to note are as follows:</p> <ul style="list-style-type: none"><li>• F1 (Funding Strategy Statement Review and Triennial Actuarial Valuation) – the Actuarial Valuation process for 31<sup>st</sup> March 2022 is continuing. See agenda item 5.</li><li>• F2 (Review of Investment Strategy) – This is ongoing, albeit it has been delayed slightly so due consideration can be taken of the current financial climate. Members attended a training session in October 2022.</li><li>• F3 (Climate Change and TCFD) – Mercer continue to work in this area but due to other priorities this has been delayed. A training session for Members has been arranged for 1<sup>st</sup> February 2023.</li><li>• F4 (UK Stewardship Code) – The draft submission was presented at the August 2022 Committee with final changes delegated to the Head of the Pension Fund. The final document was submitted to the Financial Reporting Council (FRC) on 31<sup>st</sup> October 2022.</li><li>• F5 (LGPS Investment Related Developments) – This continues to be delayed in some areas as the consultation(s) that were due prior to the summer have not as yet been issued. The business plan was updated in August to extend this item into quarter four given the delay. In September 2022, the Department for Levelling Up, Housing and Communities (DLUHC) published the consultation for the Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks (see paragraph 1.02)</li></ul>
1.02	<p><b>Current Development and News</b></p> <p><i>Consultation: Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks.</i></p> <p>On 1st September 2022 the Department for Levelling Up, Housing and Communities (DLUHC) published a consultation on proposals to require Local Government Pension Scheme (LGPS) administering authorities (AAs) in England and Wales to assess, manage and report on climate change risks. The deadline for responses to the consultation is 24<sup>th</sup> November 2022. <a href="#">Consultation Link</a>.</p> <p>The consultation is in line with recommendations made by the Task Force on Climate Related Financial Disclosure (TCFD). The proposed measures are intended to ensure that the financial risks and opportunities arising specifically from climate change are properly understood and effectively managed by the administering authorities that locally manage the LGPS.</p> <p>Notably, this consultation has been launched on a stand-alone basis when for some period of time it had been stated that it would be contained in a wider consolidated consultation covering a range of areas, including TCFD. As has been previously discussed with Committee the Fund has</p>

	<p>always intended to respond to the consolidated consultation (and still intends to do so when launched).</p> <p>The proposals address four separate areas: governance, strategy, risk management, and metrics and targets. The draft response for the Fund is attached at Appendix 2 for Members' approval.</p>
1.03	<p>In summary the Fund is supportive of the proposals and a significant amount of the consultation focus surrounds climate change scenario analysis and metrics, for which the Fund has already undertaken modelling (and will be doing so again as part of the forthcoming investment strategy review). Our response provides an overview of how climate change is embedded into our governance policies and investment and funding strategies and also outline some areas where we believe challenges lie ahead, for administering authorities in particular. As further evidence of the Fund being committed to best practice in this vast area we intend to submit a TCFD report early in 2023, and this will adhere to the principles laid out in the consultation.</p>
1.04	<p><i>Additional Voluntary Contributions (AVC) Review</i></p> <p>Under the LGPS Regulations, all Administering Authorities are required to provide members with access to an AVC provider, through which they can choose to save more for their retirement. By providing this, the Administering Authority has a fiduciary duty to ensure that the AVC arrangements it puts in place are in the best interests of its members (in terms of suitability of fund range, performance, governance and administration).</p>
1.05	<p>Historically, the vast majority of LGPS funds, including the Clwyd Pension Fund, used the Equitable Life Assurance Society (ELAS) to provide member's access to AVCs. After its well-publicised difficulties in the late 1990s and early 2000s, ELAS closed to new business and withdrew from the market. While the Fund appointed Prudential to provide access to AVCs after this point, many ELAS fund members remained with ELAS due to the type of funds they were invested in. In 2020, Equitable Life transitioned to Utmost. At that time the Fund contacted members who were due to have their ELAS AVC accounts transferred to Utmost and gave them the option to select alternative investments with Utmost, or to transfer these assets to the Fund's Prudential AVC scheme or to an alternative arrangement outside of the Fund. Some members selected alternative investments within Utmost.</p>
1.06	<p>The Administering Authority's fiduciary duties therefore continue for both the Prudential and Utmost, as our current and historic providers.</p> <p>In accordance with these requirements, the Fund performs regular AVC reviews in order to ensure that the AVC providers, their funds and their services remain appropriate and serve the best interests of the members. This report comments on the 2022 review.</p> <p>Currently, there are 603 Clwyd Pension Fund members with access to £6.3m of investments with Prudential and 49 members with access to £0.3m of investments with Utmost.</p>

1.07	<p>Appendix 3 sets out an update as provided by Mercer, and this includes an overview of the contract features, an update on performance of the funds and a view of the two providers. Both Prudential and Utmost have targeted net zero by 2050, with Prudential aiming for a 25% reduction in carbon emissions of all shareholder and policy assets by 2025 and Utmost committed to a 50% reduction by 2030.</p> <p>It also includes a case study that outlines the importance of regular AVC reviews as well as information on the slippage cost method used to calculate and assess transaction costs.</p>
1.08	<p>The type of AVC arrangements discussed in the review are:</p> <p><u>Unit-linked funds</u></p> <ul style="list-style-type: none"> <li>- Members purchase units in funds which invest according to their particular objective.</li> <li>- Returns to members are in the form of changes in the value of the unit price.</li> <li>- Members realise a profit or a loss from an investment when the units in the fund are sold.</li> <li>- For Clwyd Pension Fund, members are invested in 19 unit linked funds across Utmost and Prudential.</li> </ul> <p><u>With profit funds</u></p> <ul style="list-style-type: none"> <li>- Typically considered to be a fairly secure medium to long-term investment with reasonable potential performance from a pooled mix of assets including equities, property, bonds and cash.</li> <li>- The costs of running these are largely deducted from the fund and what is left over is available to be paid to the with profits investors as “bonuses”.</li> <li>- To avoid big changes in the size of bonuses each year, the insurer will smooth returns.</li> <li>- Guarantees can necessitate a more cautious underlying investment strategy, to maintain the insurer’s solvency. This can severely restrain future investment performance for other policyholders too.</li> <li>- Insurers can impose a Market Value Reduction (MVR) if disinvestment is other than (usually) the pre-selected retirement date or prior death and may be viewed by a member as a financial penalty on transfer.</li> <li>- Historically, payout examples were provided via insurers’ regulatory returns, but these ceased to be available in 2017 due to the Solvency II Directive.</li> </ul>
1.09	<p>Mercer have recommended that the Fund communicate with members to confirm their selected retirement ages are correct and remind them of the need to regularly review their AVC investments. The officers of the Fund will take forward these recommendations.</p>
1.10	<p><i>Wales Pension Partnership (WPP) Responsible Investing Update</i></p> <p>The Fund’s key priorities with in its Responsible Investment (RI) policy included enhanced reporting on RI matters. Work is ongoing with WPP to produce a template for each of the Welsh Pension Fund Committees to receive information on voting, engagement and stock lending. Until the</p>

	<p>template is finalised, the Fund will provide publically available documentation.</p>
1.11	<p><u>Voting and Engagement</u></p> <p>As an asset owner, there are opportunities to engage with companies, and also vote at Annual General Meetings, with a view to helping improve company policies in relation to environmental, social and governance matters. As WPP own stocks on behalf of the Constituent Authorities (including Clwyd Pension Fund), they carry out voting and engagement on their behalf.</p> <p>WPP have appointed Robeco as the Voting and Engagement provider. The Deputy Head of the Clwyd Pension Fund, as part of the WPP RI Sub Group, has been working with Robeco to create suitable reports for Constituent Authorities showing the voting and engagement that has taken place. Appendices 4 to 6 of this update includes these reports but work is ongoing to further enhance them.</p>
1.12	<p>Appendix 4 highlights the engagement work that has been carried out on behalf of WPP from July to September 2022. This quarter provides information and case studies on the following areas of engagement:</p> <ul style="list-style-type: none"> <li>• Diversity and Inclusion &amp; Natural Resource Management</li> <li>• Climate Transition of Financial Institutions</li> <li>• Responsible Executive Remuneration</li> <li>• Proxy Voting</li> </ul> <p>It is important to note that the lists of stocks in the engagement report are for the WPP as a whole and may or may not be in sub funds the Clwyd Pension Fund is invested in. This is one of the areas of enhancement that is ongoing.</p> <p>Appendices 5 and 6 provides summary details for the proxy voting reports for the Global Opportunities and Emerging Market Equity Funds in which the Fund is invested. The reports cover the number of meetings and votes cast for the period to September 2022 and some of the voting highlights.</p>
1.13	<p><u>Securities Lending</u></p> <p>Securities lending involves the owner of shares or bonds transferring them temporarily to a borrower. In return, the borrower transfers other shares, bonds or cash to the lender as collateral and pays a borrowing fee. Stock lending can, therefore, be used to incrementally increase fund returns for investors.</p> <p>WPP have appointed Northern Trust to lend securities, which are held within the WPP sub-funds, on their behalf.</p> <p>Quarterly Securities Lending reports are presented at each WPP Joint Governance Committee (JGC). The JGC due to take place in September 2022 was cancelled due to the death of the Queen. The next JGC will be on 5<sup>th</sup> December 2022.</p> <p>The total amount of WPP net revenue received for securities lending in the quarter to June 2022 was £358,547. The Clwyd Pension Fund is only</p>

invested in 3 funds which generated the revenue as shown in the following table.

Sub Fund	WPP Net Revenue £	CPF Net Revenue £
Global Opportunities Equity (4%)	199,824	7,993
Emerging Markets Equity (47%)	14,095	6,625
Multi Asset Credit (34%)	20,266	6,890
Total	234,185	21,508

1.14 Roles and responsibilities

The role of monitoring the engagement, voting and stock lending carried out by Robeco and Northern Trust on behalf of WPP lies with the WPP Joint Governance Committee (JGC), rather than the Clwyd Pension Fund Committee. However WPP's role is to deliver the RI policies of all the Constituent Authorities.

1.15 *Transition of Assets*

During the quarter to September 2022 there were no transition of assets between mandates. However during October and November 2022 in light of the volatility in markets following the mini budget on 23<sup>rd</sup> September 2022, officers and the Fund consultant, Mercer held emergency discussions to agree a decision to transition some of the Fund assets. More detail around the decisions taken are reported in agenda items 6 and 7 of these papers but in summary the following transitions were effected:

Mandate	Redemption	Investment
BlackRock Passive ESG Equity	£125m	
Insight Cash & Risk Management Framework		£120m
Russell Emerging Market Equity	£90m	
Insight Cash & Risk Management Framework		£90m

The residual £5m from the transition was paid into the Fund bank account.

Following this transition and current valuations it is estimated the current asset allocations will be:

	Current %	Strategic %
Cash and Risk Management Framework	27	23
Global Equity	6	10
Emerging Market Equity	4	10
Multi Asset Credit	10	12
Hedge Funds	7	7
Tactical Portfolio	12	11
Private Markets	30	27
Cash	4	0

The current allocations are all within their conditional asset allocation range.

1.16

**Policy and Strategy Implementation and Monitoring**

The Advisory Panel receive a detailed investment report from the Fund’s Investment Consultants, Mercer, which shows compliance with the existing approved Investment Strategy, as well as reports on fund manager performance. A summary of this performance is shown in the Mercer report included in agenda item 7.

The Advisory Panel also receive verbal updates from key matters considered at the following Clwyd Pension Fund officer/adviser working groups:

- Tactical Asset Allocation Group (TAAG)
- Cash and Risk Management Group (CRMG)
- Private Equity and Real Assets Group (PERAG)

Any decisions arising from these meetings which have been agreed using delegated responsibilities are detailed in Appendix 7.

1.17

**Delegated Responsibilities**

The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 7 updates the Committee on the areas of delegation used since the last meeting. To summarise:

- Cash-flow forecasting continues to be monitored through the Cash and Risk Management Strategy.
- Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG).
- The following commitments to private market investments have been made in line with the Fund’s Investment Strategy and recommendations from Mercer, the Fund Consultant; more details are provided in 1.19.

<b>Asset Class</b>	<b>Fund</b>	<b>Commitment</b>
Private Equity	Activate Capital II ECI 12	\$13m (£11m) £20m

1.18

**Private Market Allocations**

As reported to previous Committees, due to the WPP currently running a tender for Allocators to implement private markets, Mercer as the Fund's investment consultant have been working with officers to determine the Fund's requirements for infrastructure and private debt in addition to private equity and impact opportunities until they are transitioned to WPP. This work includes identifying potential managers on a sustainable basis.

1.19

As part of this process, Mercer share relevant reports on their research views and full due diligence on any recommended managers for the Fund officers to consider and discuss. From there, meetings are conducted with the recommended managers and Fund officers to discuss the mandates in more detail and facilitate any further information the Fund may require. The Fund and Mercer continue to be busy considering new allocations for

	<p>2022/23. A brief summary of the two private equity allocations recently agreed are shown below. Activate is a new manager but ECI is an existing manager that the Fund first invested with in Fund 6 in 1998.</p> <p><b>Activate Capital II</b> A private equity manager raising \$300m for its second fund. It will focus on venture capital and growth equity investments in companies that provide technology products, services and solutions that enable energy development, smart mobility and industrial digitisation.</p> <p><b>ECI 12</b> A private equity manager raising £900m targeting control buy out investments in the UK mid-market. It will seek to invest in high growth, technology enabled businesses. The Clwyd Pension Fund has been an investor with ECI since 1998.</p>
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<p>Due to three post vacancies in the Fund’s Finance Team (out of a total of seven), a proportion of the work of the team has been outsourced to the Fund’s consultants. This is a temporary measure until the posts are filled. It is hoped to start the recruitment for at least two of these posts (Principal Accountant and Governance &amp; Administration Assistant) very soon as this was put on hold whilst the annual report and accounts was being prepared. It is critical these posts are filled in the near future due to the large proportion of vacancies in this team.</p>

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	<p>None directly as a result of this report, albeit consultation on updates to the Funding Strategy will be carried out during 2022/23.</p>

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>Appendix 8 provides the dashboard and risk register highlighting the current risks relating to investments and funding matters.</p>
4.02	<p>There have been no additional risks added to the register since the last Committee but there are a number of changes to the current risks as well as underlying factors:</p> <ul style="list-style-type: none"> <li>• F4 Value of liabilities increasing due to market yields/inflation increasing out of line from actuarial assumptions - The likelihood for F4 has reduced by one from Significant to Low, as the level of interest rate hedging has increased and the projected forward inflation levels have reduced slightly. <ul style="list-style-type: none"> <li>○ There is a knock on effect to F2 which relates to the funding level reducing, increasing any deficit or reducing any surplus. Given the provisional valuation results are showing a much improved position and the change since the valuation date has not been significant this has also seen its likelihood reduce by one from Significant to Low.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>• There have also been some changes to the internal controls and actions to reflect updated information. In particular under F6 which covers Investment and/or funding objectives and/or strategies are no longer fit for purpose recognises that the performance of Link needs to be closely monitored via the Host Authority.</li> </ul>
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<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – 2022/23 Business plan Appendix 2 – Draft consultation response – Governance and reporting of climate change risks Appendix 3 – AVC Review Appendix 4 – WPP Engagement Report Q3 2022 Appendix 5 – WPP Global Opportunities Summary Voting Q3 2022 Appendix 6 – WPP Emerging Market Equity Summary Voting Q3 2022 Appendix 7 – Delegated Responsibilities Appendix 8 – Risk dashboard and register – Investments and Funding

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	None.  <b>Contact Officer:</b> Debbie Fielder, Deputy Head, Clwyd Pension Fund <b>Telephone:</b> 01352 702259 <b>E-mail:</b> Debbie.a.fielder@flintshire.gov.uk

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>The Fund - Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering authority or scheme manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>The Committee - Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>TAAG – Tactical Asset Allocation Group</b> – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from Mercer, the Fund Consultant.</p> <p>(e) <b>AP – Advisory Panel</b> – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor.</p> <p>(f) <b>PERAG – Private Equity and Real Asset Group</b> – a group chaired by</p>

the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund's Investment Consultant and monitored by AP.

- (g) **In House Investments** – Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG.
- (h) **WPP – Wales Pensions Partnership** - The WPP is a collaboration of the eight LGPS funds (Constituent Authorities) covering the whole of Wales and is one of eight national Local Government Pension pools. WPP has appointed an Operator to manage assets collectively for the eight Wales LGPS funds. A proportion of the Clwyd Pension Fund assets are invested via WPP.
- (i) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (j) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.
- (k) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (l) **Funding & Risk Management Group (FRMG)** - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor.
- (m) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.
- (n) **Actuary** - A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise.
- (o) **Department for Levelling Up, Housing & Communities (DLUHC)** – supports communities across the UK to thrive, making them great places to live and work.
- (p) **Financial Reporting Council (FRC)** – an independent regulator in the UK and Ireland, responsible for regulating auditors, accountants and actuaries, and setting the UK's Corporate Governance and Steward.

A full glossary of Investments terms can be accessed via the following link.  
<https://www.schroders.com/en/uk/adviser/tools/glossary/>